

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 SP-02 AID-05 NSC-05 CIEP-02

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FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 FEA-01 OES-05

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 0852

INFO AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A. STATE 165596; B. BRASILIA A-47 OF APRIL 15, 1974

1. AS REQUESTED REFTEL A, THERE FOLLOWS A STATEMENT ON THE INVESTMENT CLIMATE IN BRAZIL AND STATISTICS ON FOREIGN INVESTMENT. AS WAS INDICATED IN REF B, PUBLISHED INVESTMENT STATISTICS ARE NOT AVAILABLE ACCORDING TO THE BREAKDOWN REQUESTED. FURTHERMORE, PUBLISHED DATA ARE TOO INCOMPLETE TO PERMIT US TO DEVELOP OUR OWN ESTIMATES. DATA BEING SUBMITTED IS CONSISTENT WITH THAT PROVIDED LAST YEAR (AS PER REF B).

2. STATEMENT ON INVESTMENT CLIMATE IN BRAZIL: QUOTE. THE BRAZILIAN GOVERNMENT (GOB) WELCOME FOREIGN INVESTMENT, PARTICULARLY AS A MEANS OF PROMOTING THE TRANSFER OF ADVANCED TECHNOLOGY AND EXPANDING EXPORTS. WITH A UNCLASSIFIED

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RAPIDLY GROWING ECONOMY AND A STABLE POLITICAL

SCENE, BRAZIL PROVIDES AN ATTRACTIVE CLIMATE FOR FOREIGN INVESTORS.

THE GOB PROVIDES A WIDE RANGE OF INCENTIVES TO BOTH FOREIGN AND DOMESTIC FIRMS UNDERTAKING INVESTMENTS IN THE LESS DEVELOPED REGIONS OF THE NORTH AND THE NORTHEAST, AND IN CERTAIN PRIORITY SECTORS, SUCHAS AS IMPORT SUBSTITUTION, NO -FERROUS METALS, AND CAPITAL GOODS INDUSTRIES. THE MOST IMPORTANT OF THESE INCENTIVES ARE A POSSIBLE EXEMPTION FROM INCOME TAX FOR A PERIOD OF UP TO 15 YEARS AND DUTY FREE ENTRY FOR CERTAIN MACHINERY AND EQUIPMENT. THE CURRENT BRAZILIAN GOVERNMENT HAS TAKEN A NUMBER OF MEASURES EITHER TO HELP INCREASE THE ROLE OF THE PRIVATE SECTOR, OR PLACING IT ON A MORE EQUAL FOOTING WITH THE PUBLIC SECTOR. DEVELOPING THE PRIVATE SECTOR IS AN IMPORTANT GOAL OF THIS BRAZILIAN GOVERNMENT.

DESPITE THE OVERALL FAVORABLE CLIMATE FOR FOREIGN INVESTMENT, THE GOB DOES RESTRICT THE FLOW OF FOREIGN FUNDS INTO SUCH AREAS AS COASTAL SHIPPING, DOMESTIC AIRLINES, NEWSPAPERS, RADIO, AND TV. IN ADDITION, FOREIGN INVESTMENT, WHERE IT HAS A MAJORITY OWNERSHIP, IS INELIGIBLE TO BID AGAINST QUALIFIED BRAZILIAN-OWNED FIRMS FOR TECHNICAL SERVICE CONTRACTS WITH THE FEDERAL GOVERNMENT, AND IS EXCLUDED FROM CERTAIN DIRECT INCENTIVES, SUCH AS BORROWING AT SUBSIDIED INTEREST RATES FROM THE NATIONAL BANK FOR ECONOMIC DEVELOPMENT. ALSO "ADMINISTRATIVE" GUIDELINES LIMIT FOREIGN PARTICIPATION IN INVESTMENT BANKS AND RESTRICT FOREIGN OWNERSHIP IN LARGE MINING PROJECTS TO A MINORITY POSITION. IN CERTAIN SECTORS, SUCH AS PETROLEUM EXPLORATION AND PUBLIC UTILITIES, FOREIGN INVESTMENT IS NOT PERMITTED. JOINT VENTURES ARE A COMMON APPROACH TO DOING BUSINESS IN BRAZIL ALTHOUGH THERE ARE NO REQUIREMENTS TO THIS EFFECT. ANTI-TRUST LAWS ARE IN AN EARLY STAGE OF DEVELOPMENT.

REPATRIATION OF CAPITAL AND REMITTANCES OF EARNINGS ARE PERMITTED WITHOUT PENALTY IF THESE DO NOT EXCEED 12 PERCENT PER ANNUM OF REGISTERED CAPITAL AND REINVESTMENTS, AVERAGED OVER A THREE YEAR PERIOD. A PROGRESSIVE SUPPLEMENTARY TAX IS APPLICABLE ON UNCLASSIFIED

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REMITTANCES OVER THIS LIMIT. REGISTRATION AT THE CENTRAL BANK IS A PREREQUISITE TO REMITTING EARNING AND REPATRIATING CAPITAL.

AN INVESTMENT GUARANTY AGREEMENT BETWEEN THE UNITED STATE AND BRAZIL EXISTS TO PROTECT INVESTORS AGAINST RISKS OF CONVERTIBILITY, EXPROPRIATION, AND WAR. END QUOTE.

3. INVESTMENT STATISTICS (CENTRAL BANK REGISTRATION

DATA):

SECTOR BREAKDOWN OF TOTAL FOREIGN DIRECT INVESTMENT
AND REINVESTMENTS

	END 1974	
	(\$ MILLIONS)	
TOTAL	6,027	
OF WHICH:		
EXTRACTIVE INDUSTRY	121	
MANUFACTURING INDUSTRY	4,515	
PUBLIC UTILITIES	208	
SERVICES	1,031	
AGRICULTURE	43	
OTHERS	109	

4. PRINCIPAL FOREIGN INVESTORS:

	(MILLIONS)	
U.S.	2,022	
GERMANY	710	
JAPAN	598	
SWITZERLAND	559	
CANADA	401	
U.K.	401	
OTHERS	1,336	
TOTAL	6,027	

5. NOTE: WITH RESPECT TO TOTAL U.S. INVESTMENTS
IN BRAZIL, IT SHOULD BE NOTED THAT CENTRAL BANK
REGISTRATION DATA SHOWS A LOWER FIGURE THAN DOES
THE DEPARTMENT OF COMMERCE DATA. THE REASONS
FOR THIS DEISCREPANCY ARE ESSENTIALLY THREE:
(A) DEFINITIONAL DIFFERENCES ABOUT WHAT CON-
STITUTES DIRECT INVESTMENT; (B) UNREGISTERED
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FOREIGN INVESTMENTS AND (C) LAG IN REGISTRATIONS
AT THE CENTRAL BANK.
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